A simple illustration of SVB event
Xuewen Liu, HKU

SVB: borrow $100 from depositors at t=0, deposit rate r=1% (no internal capital/equity)

Invest $ 100 in long-term zero-coupon bond with maturity at t=T and yield R=3%

Balance sheet of SVB:

Timeline:

Outcome

A: asset value at t
    (if no increase in interest rate)

A': asset value at t
    (with an increase in interest rate)

D: debt value at t
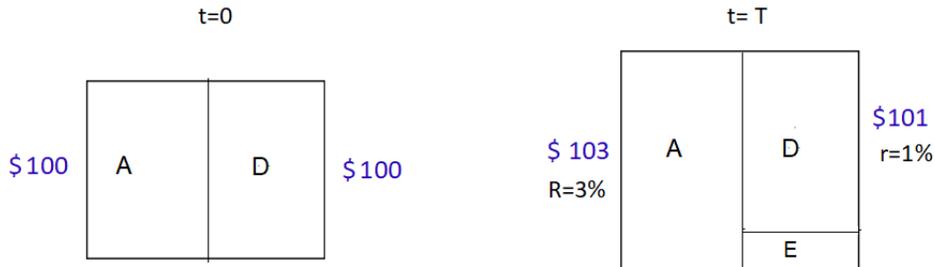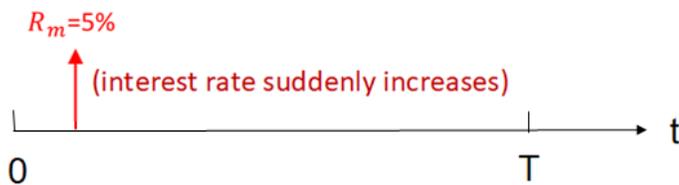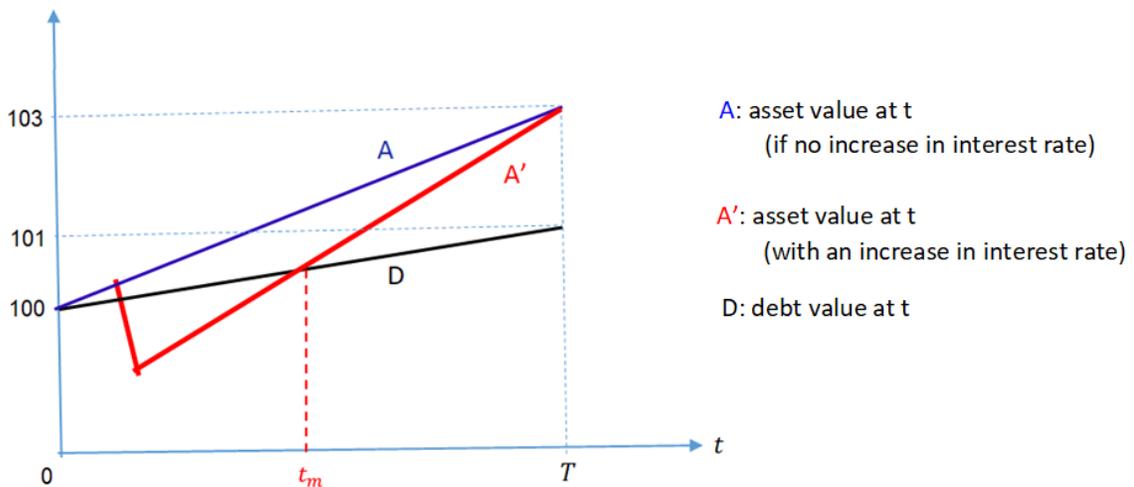
Conclusion: before time t_m, possible self-fulfilling run because bank is *illiquid* (not insolvent)

        depositors' beliefs matter (coordination problem)

    after time t_m, no illiquidity risk; self-fulfilling run is impossible

        creditors do not want to run in the first place.